

CENTRAL UTAH EDUCATIONAL SERVICES

Financial Statements

For the Year Ended

June 30, 2005

Central Utah Educational Services
195 East 500 North
Richfield, Utah 84701

CENTRAL UTAH EDUCATIONAL SERVICES

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and is used to assist in formatting, for easier reading)

FINANCIAL SECTION

JUNE 30, 2005

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Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

INDEPENDENT AUDITOR'S REPORT

Central Utah Educational Services
545 West 100 North
Richfield, Utah 84701


We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Utah Educational Services as of and for the year ended June 30, 2005, which collectively comprise Central Utah Educational Services' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Central Utah Educational Services' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Central Utah Educational Services as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2006, on our consideration of Central Utah Educational Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



KIMBALL & ROBERTS, P. C.
Certified Public Accountants

June 30, 2006
Richfield, Utah

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and is used to assist in formatting, for easier reading)

Management's Discussion and Analysis

As management of the Central Utah Educational Services (CUES) center, we offer readers of the CUES financial statements this narrative discussion, overview, and analysis of the financial activities of the CUES center for the fiscal year ending June 30, 2005.

Financial Highlights

- CUES's net assets exceeded liabilities by \$501,321 at the close of the most recent fiscal year.
- During the year, expenses were \$121,975 less than the \$1,510,558 generated in revenues for governmental activities.
- Funding from operating grants and contributions and charges for services totaled \$1,132,764 for the current year.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to CUES's basic financial statements. CUES basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves and federal and state compliance information.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of CUES's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of CUES, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of CUES is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of CUES changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned early retirement incentive).

The government-wide financial statements can be found on pages 7 to 9 of this report.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. CUES, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund

balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

CUES maintains one governmental fund (general fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

CUES adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 9 to 13 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 14 to 23 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of CUES, assets exceeded liabilities by \$501,321 at the close of the most recent fiscal year.

CENTRAL UTAH EDUCATIONAL SERVICES - Net Assets

	Governmental Activities		Total Change 2005-2004
	2005	2004	
Current and other assets	\$ 667,228	\$ 564,071	\$ 103,157
Capital assets	161,310	67,185	94,125
Total assets	828,538	631,256	197,282
Other liabilities	283,206	302,024	(18,818)
Long-term liabilities outstanding	44,011	41,152	2,859
Total liabilities	327,217	343,176	(15,959)
Net assets:			
Invested in capital assets, net of related debt	161,310	67,185	94,125
Restricted	-	-	-
Unrestricted	340,011	220,895	119,116
Total net assets	\$ 501,321	\$ 288,080	\$ 213,241
Invested in capital assets, net of related debt	32.18%	23.32%	
Restricted	0.00%	0.00%	
Unrestricted	67.82%	76.68%	

- A portion of CUES's net assets (32%) reflects its investment in capital assets (e.g., furniture and equipment net of accumulated depreciation), less any related debt used to acquire those assets that are still outstanding. CUES uses these capital assets to provide services to districts; consequently, these assets are *not* available for future spending. Although CUES's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

- The remaining balance of *unrestricted net assets* (68%) may be used to meet CUES's obligations to districts, employees, and creditors and to honor next year's budget.

At the end of the current fiscal year, CUES is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

Investment in capital assets increased by \$94,125 during the year ended June 30, 2005. This increase resulted from acquiring new assets in the amount of \$138,883 and recording depreciation on the capital assets for the net difference.

CUES's net assets increased by \$213,241 during the current year. The following discussion and analysis on governmental activities focuses on this increase:

Governmental activities. The key elements of the increase of CUES's net assets for the year ended June 30, 2005 are as follows:

CUES - Changes in Net Assets

	<u>Governmental Activities 2005</u>
Revenues:	
Program revenues:	
Charges for services	\$ 631,996
Operating grants and contributions	500,768
General revenues:	
Federal and state aid not restricted to specific purposes	177,302
Miscellaneous and local	200,492
Total revenues	<u>1,510,558</u>
Expenses:	
Support services:	
Instructional staff	1,297,317
Total expenses	<u>1,297,317</u>
Changes in net assets	213,241
Net assets, beginning	288,080
Net assets, ending	<u>\$ 501,321</u>

Financial Analysis of CUES's Funds

As noted earlier, CUES uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of CUES's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing CUES's financing requirements.

Governmental funds report the differences between their assets and liabilities as fund balance, which is divided into reserved and unreserved portions. Reservations indicate the portion of CUES's fund balances that are not available for appropriation. The unreserved fund balance is, in turn, subdivided between designated and undesignated portions. Designations reflect CUES's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds. Undesignated balances in the general fund are required by state law to be appropriated in the following year's budget.

The **general fund** is the chief operating fund of CUES. At June 30, 2005, unreserved and undesignated fund balance was \$384,022. The unreserved and undesignated fund balance increased \$121,975. Annual expenditures in the general fund were \$121,975 less than the revenues accounting for the increase in the fund balance.

Capital Assets

Capital assets at June 30, 2005 and 2004 are outlined below:

CENTRAL UTAH EDUCATIONAL SERVICES'S Capital Assets (net of accumulated depreciation)

	Governmental Activities		Total Change 2005-2004
	2005	2004	
Furniture and equipment	\$ 161,310	\$ 67,185	\$ 94,125
Total capital assets	\$ 161,310	\$ 67,185	\$ 94,125

Additional information on CUES's capital assets can be found in Note 3 to the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Central Utah Educational Service's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director, Central Utah Educational Services, 195 East 500 North, Richfield, UT 84701.

CENTRAL UTAH EDUCATIONAL SERVICES**Statement of Net Assets**

June 30, 2005

	Governmental Activities
Assets:	
Cash and investments	\$ 398,953
Receivables:	
Other governments	148,608
Other local	119,667
Capital assets:	
Other capital assets, net of accumulated depreciation	161,310
Total assets	828,538
Liabilities:	
Accounts payable	174,005
Accrued salaries	20,044
Deferred revenue:	
Other governments	89,157
Other local	-
Noncurrent liabilities:	
Due within one year	6,602
Due in more than one year	37,409
Total liabilities	327,217
Net Assets:	
Invested in capital assets, net of related debt	161,310
Unrestricted	340,011
Total net assets	\$ 501,321

The notes to the basic financial statements are an integral part of this statement.

CENTRAL UTAH EDUCATIONAL SERVICES
Statement of Activities
Year Ended June 30, 2005

Functions	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
Governmental activities:				Total Governmental Activities
Supporting services:				
Instructional staff	\$ 1,297,317	\$ 631,996	\$ 500,768	\$ (164,553)
Total school district	<u>\$ 1,297,317</u>	<u>\$ 631,996</u>	<u>\$ 500,768</u>	<u>(164,553)</u>
General revenues:				
Federal and state aid not restricted to specific purposes				177,302
Miscellaneous				<u>200,492</u>
Total general revenues				<u>377,794</u>
Change in net assets				213,241
Net assets - beginning				<u>288,080</u>
Net assets - ending				<u>\$ 501,321</u>

The notes to the basic financial statements are an integral part of this statement.

CENTRAL UTAH EDUCATIONAL SERVICES
Balance Sheet
Governmental Fund
June 30, 2005

	<u>General</u>
Assets:	
Cash and investments	\$ 398,953
Receivables:	
Local sources	148,608
State sources	-
Federal sources	<u>119,667</u>
Total assets	<u><u>\$ 667,228</u></u>
Liabilities and fund balances:	
Liabilities:	
Accounts payable	\$ 174,005
Accrued salaries	20,044
Deferred revenue:	
Other governments	89,157
Other local	<u>-</u>
Total liabilities	<u>283,206</u>
Fund Balances:	
Unreserved:	
Undesignated, reported in:	
General fund	<u>384,022</u>
Total fund balances	<u>384,022</u>
Total liabilities and fund balances	<u><u>\$ 667,228</u></u>

The notes to the basic financial statements are an integral part of this statement.

CENTRAL UTAH EDUCATIONAL SERVICES
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2005

Total fund balances for governmental funds	\$ 384,022
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Furniture and equipment, net of \$198,771 accumulated depreciation	<u>161,310</u>	161,310
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Long-term liabilities that pertain to governmental funds, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:

Compensated absences payable	<u>(44,011)</u>
Total net assets of governmental activities	<u><u>\$ 501,321</u></u>

The notes to the basic financial statements are an integral part of this statement.

CENTRAL UTAH EDUCATIONAL SERVICES
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
Year Ended June 30, 2005

	<u>Major Fund</u>
	<u>General</u>
Revenues:	
Local sources	\$ 832,488
State aid	436,364
Federal aid	241,706
Total revenues	<u>1,510,558</u>
Expenditures:	
Current:	
Supporting services:	
Instructional staff	<u>1,388,583</u>
Total expenditures	<u>1,388,583</u>
Excess (deficiency) of revenues over (under) expenditures	<u>121,975</u>
Net change in fund balances	121,975
Fund balances - beginning, as restated	<u>262,047</u>
Fund balances - ending	<u><u>\$ 384,022</u></u>

The notes to the basic financial statements are an integral part of this statement.

CENTRAL UTAH EDUCATIONAL SERVICES
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Government Funds to the Statement of Activities
Year Ended June 30, 2005

Net change in fund balances-total governmental funds	\$	121,975
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report equipment and furniture outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$3,000 for furniture and equipment are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded outlays in the current period.

Equipment & furniture outlays	\$	138,883	
Loss on disposal of capital assets		-	
Proceeds from sales of capital assets		-	
Depreciation expense		<u>(44,758)</u>	94,125

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

(Increase)Decrease in compensated absences		(2,859)
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Change in net assets of governmental activities	\$	<u>213,241</u>
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CENTRAL UTAH EDUCATIONAL SERVICES
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues:				
Local sources	\$ 785,474	\$ 852,759	\$ 832,488	\$ (20,271)
State aid	326,366	482,364	436,364	(46,000)
Federal aid	126,923	306,757	241,706	(65,051)
Total revenues	1,238,763	1,641,880	1,510,558	(131,322)
Expenditures:				
Current:				
Supporting services:				
Instructional staff	1,238,763	1,903,927	1,388,583	515,344
Total expenditures	1,238,763	1,903,927	1,388,583	515,344
Excess of revenues over expenditures	-	(262,047)	121,975	384,022
Other financing sources (uses):				
Transfer out	-	-	-	-
Net change in fund balances	-	(262,047)	121,975	384,022
Fund balances - beginning	-	262,047	262,047	-
Fund balances - ending	\$ -	\$ -	\$ 384,022	\$ 384,022

The notes to the basic financial statements are an integral part of this statement.

CENTRAL UTAH EDUCATIONAL SERVICES
Notes to Financial Statements
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Central Utah Educational Services (CUES) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the CUES are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the statement include the following:

- For the first time the financial statements include:
 - A Management's Discussion and Analysis (MD&A) providing an analysis of CUES's overall financial position and results of operations.
 - Financial statements prepared using full-accrual accounting for all of CUES's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). CUES has implemented the provisions of Statement No. 34 as well as other new standards related to note disclosure, non-exchange transactions, and certain liabilities and expenditures.

The Reporting Entity – CUES is a joint venture with Sevier, Juab, North Sanpete, South Sanpete, Wayne, Tintic and Piute school districts. Sevier School District serves as the fiscal agent for CUES and has ongoing fiscal responsibility. The Board of Directors, comprised of superintendents from the districts identified earlier comprises the governing authority for CUES. The Board establishes policies, approves budgets, and appoints a Director with responsibilities for administering all educational activities and for fiscal matters. CUES provides educational support services, applied technology education, media support and co-operative purchasing support to the school districts. As required by GAAP, these basic financial statements present the activities of CUES. CUES is not a component unit of any other primary government.

CENTRAL UTAH EDUCATIONAL SERVICES
Notes to Financial Statements
Continued

Government-wide and fund financial statements – The *government-wide financial statements* (the statement of net assets and the statement of activities) display information about the primary government (the Service Center). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of CUES's governmental activities. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to a particular function. Depreciation expenses for capital assets that can specifically be identified with a function are included in its direct expenses. Depreciation expense for "shared" capital assets (for example, a school building is used primarily for instructional, school administration, and operation and maintenance of facilities) are ratably included in the direct expenses of the appropriate functions. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include 1) fees and charges and other recipients of goods or services offered by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as program revenues are presented as general revenues.

The *fund financial statements* provide information about CUES's funds. Separate statements for each fund category (governmental) are presented. The emphasis of fund financial statements is on major governmental funds. CUES has only one governmental fund (general) that is presented.

CUES reports the following major governmental funds:

- The *general fund* is CUES's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CUES has no non-major funds and therefore none are presented.

Measurement focus, basis of accounting, and financial statement presentation – The *government-wide* are reported using the economic resources measurement focus. The *government-wide* financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which CUES receives value without directly giving equal value in exchange, include grants, and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. CUES considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures generally are recorded when the related fund liability is incurred except for claims

CENTRAL UTAH EDUCATIONAL SERVICES
Notes to Financial Statements
Continued

and judgments, and early retirement, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

Under the terms of grant agreements, CUES funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is CUES's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Budgetary Data – Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations lapse at fiscal year-end with the exception of those indicated as a fund balance reserve. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- During May of each year, the CUES Director submits to the Board a proposed operating budget for the next fiscal year commencing July 1st. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending June 30th.
- Copies of the proposed budget are made available for public inspection and review by the patrons of CUES.
- Once adopted, the budget can be amended by subsequent Board action. The Board upon recommendation of the director can approve reductions in appropriations. In accordance with Utah state law, interim adjustments may be made by administrative transfer of money from one appropriation to another within any given fund.
- Certain interim adjustments in estimated revenue and expenditures during the year ended June 30, 2005, have been included in the final budget approved by the Board, as presented in the financial statements.
- Expenditures may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Negative variances in total revenues and the positive variances in total expenditures are largely a result of federal and state program revenues and related expenditures that do not have a direct impact on the undesignated fund balance. Budgets generally assume the expenditure of all available resources. Therefore, when the budget is prepared, it is assumed these funds will not have a carryover of revenue to a subsequent year. Program revenue received but not spent is restricted and deferred to the subsequent fiscal year. As a result, overall fund revenue variances will be negative, and overall fund expenditure variances will be positive.

CENTRAL UTAH EDUCATIONAL SERVICES
Notes to Financial Statements
Continued

Cash and Investments - The cash balances of substantially all funds are pooled with Sevier School District's pooled cash account.

Encumbrances - An encumbrance accounting system, in which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Outstanding appropriations lapse at fiscal year-end and CUES re-appropriates funds from the subsequent year to complete those transactions, which the District intends to honor.

Capital Assets - Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. CUES define capital assets as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Furniture and equipment of CUES are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building improvements & portable classrooms	20
Furniture	10
Kitchen equipment	10
Maintenance equipment	10
Office equipment	10
Playground equipment	10
Portable classrooms	10
Vocational education equipment	10
Buses	8
Vehicles	8
Audio visual equipment	5
Computer equipment	5

Compensated Absences - Compensated absences are those salary and benefit related payments for absences for which employees may be paid, such as vacation and leave, to include related payroll taxes. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits.

CENTRAL UTAH EDUCATIONAL SERVICES
Notes to Financial Statements
Continued

Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or in which such events take place.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

Comparative Data and Reclassifications - Comparative data for the prior year has been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in CUES's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

NOTE 2. DEPOSITS AND INVESTMENTS

Cash and investments as of June 30, 2005 consist of the following:

Demand deposits - checking	\$ 398,953
Total cash and investments	\$ <u>398,953</u>

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Governmental	\$ 398,953
Total cash and investments	\$ <u>398,953</u>

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that CUES funds be deposited with a qualified depository, which includes any depository institution, which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds, which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements, which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets, which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-

CENTRAL UTAH EDUCATIONAL SERVICES
Notes to Financial Statements
Continued

annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments, which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits and Investment Risk – CUES maintains no investment policy containing any specific provisions intended to limit CUES's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. CUES's compliance with the provisions of UMMA addresses each of these risks.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of CUES are available immediately.

Credit risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. As of June 30, 2005 the carrying amount of deposits was \$398,953 of which \$100,000 was covered by FDIC insurance.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the policy of investing excess monies only in PTIF.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

CENTRAL UTAH EDUCATIONAL SERVICES
Notes to Financial Statements
Continued

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Furniture and equipment	\$ 221,198	\$ 138,883	\$ -	\$ 360,081
Total capital assets, being depreciated	221,198	138,883	-	360,081
Accumulated depreciation for:				
Furniture and equipment	(154,013)	(44,758)	-	(198,771)
Total accumulated depreciation	(154,013)	(44,758)	-	(198,771)
Total capital assets, being depreciated, net	67,185	94,125	-	161,310
Governmental activities capital assets, net	\$ 67,185	\$ 94,125	\$ -	\$ 161,310

For the year ended June 30, 2005, depreciation expense was charged to functions of the District as follows:

Governmental activities:

Supporting services:

 Instructional staff

\$ 44,758

 Total depreciation expense, governmental activities

\$ 44,758

NOTE 4. RETIREMENT PLANS

Defined Benefit Plans – CUES contributes to the State School Contributory and the State School Noncontributory Retirement Systems (collectively, the Systems), which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (URS). URS provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953, as amended. The Utah State Retirement Act in Chapter 49 provides for the administration of the URS and plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

CENTRAL UTAH EDUCATIONAL SERVICES
Notes to Financial Statements
Continued

Plan members in the State and School Contributory Retirement System are required to contribute 1.00 percent of annual covered salary, and CUES contributes 13.89 percent of annual covered salary. For employees participating in the State and School Noncontributory System, CUES contributes 13.38 percent of annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Utah State Retirement Board.

Sevier School District contributions, including CUES to the State and School Contributory Retirement System for the years ended June 30 are as follows:

<u>Year Ended June 30</u>	<u>Employee Paid Contributions</u>	<u>Employer Paid for Employee Contributions</u>	<u>Employer Contributions</u>	<u>Salary subject to retirement Contributions</u>
State and School - Contributory				
2005	\$ 1,025	\$ 5,125	\$ 9,112	\$ 102,502
2004	957	4,786	6,901	95,716
2003	1,001	5,006	5,918	100,129
State and School - Noncontributory				
2005	\$ 0	\$ 0	\$ 1,833,260	\$ 13,701,494
2004	0	0	1,528,337	13,063,351
2003	0	0	1,486,552	14,293,763

The contributions were equal to the required contributions for each year.

Defined Contribution Plans – CUES also participates in a defined contribution plan under Internal Revenue Code Section 401(k) to supplement retirement benefits accrued by participants in the Systems. Employees covered by the State and School Noncontributory Retirement System have a contribution of 1.5 percent of covered salaries automatically made by the District. Employees participating in the Systems can make additional contributions to the 401(k) plan up to specified limits. Contributions and earnings may be withdrawn by the employee upon termination or may be used as supplemental income upon retirement. The 401(k) plan funds are fully vested to the participants at the time of deposit. Plan assets are administered and held by URS.

Sevier School District, including CUES employee's voluntary contributions and the required contributions to the 401(k) for the Fiscal year ended June 30 are as follows:

<u>Year Ended June 30</u>	<u>Employee Paid Contributions</u>	<u>Employer Paid for Employee Contributions</u>
401(k) Contributions		
2005	\$ 300,794	\$ 214,738
2004	215,522	193,876
2003	262,362	212,099

CENTRAL UTAH EDUCATIONAL SERVICES
Notes to Financial Statements
Continued

Sevier School District, including CUES also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participating. Employee contributions to the Section 457 plan totaled \$25,033 for the year ended June 30, 2005. The assets of the plan are administered and held by URS and third-party administrators.

NOTE 5. RISK MANAGEMENT

Liability and Property - CUES also maintains insurance coverage for general, automobile, personal injury, errors and omissions, employee dishonesty, and malpractice liability up to \$10 million per occurrence through policies administered by the Utah State Risk Management Fund (Fund), through Sevier School District. CUES also insures the contents of its facility against all insurable risks of direct physical loss or damage with the Fund. Property physical damage is insured to replacement value with a \$1,000 deductible; automobile physical damage is insured to actual value with a \$1,000 deductible; other liability is limited to the lesser of \$10 million or the statutory limit. The Fund is a public entity risk pool operated by the State for the benefit of the State and local governments within the State. CUES pays annual premiums to the Fund. The Fund obtains independent coverage for insured events, up to \$25 million per location. This is a pooled arrangement where the participants' pay experienced rated annual premiums, which are designed to pay claims and build sufficient reserves so that the pool will be able to protect the participating entities with its own capital. The pool reinsures excess losses to preserve the capital base. Insurance coverage from coverage by major category of risk has remained relatively constant as compared to the prior fiscal year. Insurance settlements have not exceeded insurance coverage for the past three years.

Workmen's Compensation - CUES provides workers compensation insurance through the Utah School Boards Risk Management Mutual Insurance Association, which is a risk pool, through Sevier School District. This workers compensation insurance applies to bodily injury by accident or bodily injury by disease caused or aggravated by the conditions of employment. The insurance limits for bodily injury by accident, (each accident), bodily injury by disease, (policy limit), and bodily injury by disease, (each employee) is \$1 million. This is a pooled arrangement where the participants' pay experienced rated annual premiums, which are designed to pay claims and build sufficient reserves so that the pool will be able to protect the participating entities with its own capital. The pool reinsures excess losses to preserve the capital base. Insurance coverage from coverage by major category of risk has remained relatively constant as compared to the prior fiscal year. Insurance settlements have not exceeded insurance coverage for the past three years.

Health and Accident, Life and Long-term Disability - CUES provides commercial coverage for health and accident coverage, long-term disabilities and life insurance for employees who qualify, through Sevier School District.

CENTRAL UTAH EDUCATIONAL SERVICES
Notes to Financial Statements
Continued

CUES has not experienced any significant reduction in insurance coverage from the previous year and insurance settlements have not exceeded insurance coverage for the past three years.

NOTE 6. LONG-TERM OBLIGATIONS

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences payable	41,152	2,859	-	44,011	6,602
Early retirement payable	-	-	-	-	-
Total governmental activity					
long-term liabilities	<u>\$ 41,152</u>	<u>\$ 2,859</u>	<u>\$ -</u>	<u>\$ 44,011</u>	<u>\$ 6,602</u>

Compensated Absences - CUES accrues vacation for twelve-month or full-year contract employees. CUES is liable to the employee for days earned but not taken. All vacation, plus related payroll taxes are accrued when incurred in the government-wide financial statements. During the year ended June 30, 2005, CUES recorded an additional expenditure of \$2,859, bringing the accrued liability balance to \$44,011. The liability includes related payroll taxes that would normally be paid on vacation benefits. This amount is updated on an annual basis to associate current resources with current uses.

NOTE 7. GRANTS

CUES receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by CUES's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable fund. Based on prior experience, District administration believes such disallowance, if any, would be immaterial.

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and is used to assist in formatting, for easier reading)

COMPLIANCE SECTION

JUNE 30, 2005

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Central Utah Educational Services
545 West 100 North
Richfield, Utah 84701

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Central Utah Educational Services, for the year ended June 30, 2005, and have issued our report thereon dated June 30, 2006. As part of our audit, we have audited Central Utah Educational Services' compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The Central Utah Educational Services received the following major State assistance program from the State of Utah:

State Appropriation (State Office of Education)

Central Utah Educational Services also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of Central Utah Educational Services' financial statements):

State Appropriation/Reading Specialist Grant (State Office of Education)
Rural Schools Grant (State Office of Education)
State Appropriation/Assessment Specialist Grant (State Office of Education)
Media Grant (State Office of Education)

Our audit also included testwork on Central Utah Educational Services' compliance with those general compliance requirements identified in the Compliance Manual for audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

The management of Central Utah Educational Services is responsible for Central Utah Educational Services' compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Central Utah Educational Services' compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures no instances of noncompliance with the requirements referred to above.

In our opinion, Central Utah Educational Services, complied, in all material respects, with the general compliance requirement identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the fiscal year ended June 30, 2005.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

June 30, 2006
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Central Utah Educational Services
545 West 100 North
Richfield, Utah 84701

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Central Utah Educational Services as and for the year ended June 30, 2005, which collectively comprise Central Utah Educational Services' basic financial statements and have issued our report thereon dated June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Utah Educational Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Utah Educational Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Central Utah Educational Services
Richfield, Utah
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This report is intended solely for the information and use of the audit committee, management, the board, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

June 30, 2006
Richfield, Utah